

FOCUS - 29 of 120 DOCUMENTS

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Report on Salary Surveys

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When JC Penney decided it needed to change its business model to continue to compete, the department store and catalog chain realized it was necessary to change its compensation program as well. The new pay program would be designed to help support the business and culture changes under way. Two of the key components of the new pay program included a focus on market pricing and job evaluations. This case study was outlined in a session at the annual WorldatWork conference held in San Diego. JC Penney worked with the Hay Group to create a new compensation plan that would help to manage change.

"JC Penney went from a compensation plan that gave people comfortable predictability to rewarding success and contributions," said Kevin A. Seaward, a senior national retail practice consultant at the Hay Group.

In the old plan, merit pay had little meaning. Performance reviews rewarded tenure instead of results, fostering an entitlement culture. "Basically, we were paying for effort and not results. But we weren't getting the results we needed to achieve," said Donna Graebner, senior project manager of compensation at Penney. "We introduced a new performance management tool. To reinforce our new value system-[we sent the message that] you have to increase your value to the organization in order to get an increase in pay."

Because determining job titles and compensation was an important step in moving toward a new business model, the HR department became a crucial component of the process, according to Graebner.

Using Market Data

Previously, JC Penney promoted from within, whether or not the candidate was a good fit for another job. Another problem with the old pay structure is that there were 29 pay grades, or PRLs (position responsibility levels). Employees could move through the many levels, but it wouldn't translate into any substantial differences in their job responsibilities, titles, or pay levels.

Under the new plan, both external and internal candidates were considered to fill positions, which meant there was a necessary new emphasis on market pricing. "External hires needed to have market-based pay structures. This gave birth to our market-pricing project," said Graebner.

First, JC Penney had to select which surveys to use. For positions up to the management level, broad general-industry surveys were sufficient. Above that level, retail-specific salary surveys were more useful.

Comparing Job Titles

In taking a look at market data for the retail industry, it became clear that the company needed to figure out how to compare itself to other organizations in the surveys.

It also became clear that the company could not simply rely on job titles from market surveys. Many organizations may have a position with the same title, but the responsibilities and scope of the actual job can vary greatly. To remedy the situation, JC Penney added evaluations to the process.

"Job evaluation combined with market data to give us much better information. And that's what CEOs want, that's what line executives want," said Seaward. Tying in job evaluations allowed the company to link the value of work to the market. This made it easier to communicate to people what they need to do in their jobs to obtain a raise. "We want people to understand what creates value," said Seaward.

When using a salary survey, "you need to understand the content of your jobs, as well as the survey models to get the best market data," said Seaward. "We ended up matching our buyer's job to the higher level of the data. We realized the content of the Penney's jobs is bigger than the data's, so we've got to reflect that accordingly."

How JC Penney Uses Salary Surveys for Market Pricing Jobs Report on Sala

With a group of compensation-related jobs-such as compensation director or VP of compensation and benefits-the approach was similar but slightly different. In one salary survey used by JC Penney the compensation manager range is \$ 50,000 to \$ 100,000. "So what is the right amount? How big is your job?" said Seaward. He gave an example of two compensation managers, both at billion-dollar companies. "The first one administers the annual merit budget, the annual incentive plan, and market pricing and supervises a couple of analysts. But overall, HR is not a big player in the organization," said Seaward. "The other HR does all of that too but the department works closely in designing sales plans, works with boards, line managers, etc. So those jobs aren't the same and wouldn't be paid the same." In looking at surveys, the organization then matched job titles and job content to comparable data-other companies that were of similar size and scope. JC Penney targeted the 50th percentile of the pay ranges for each job.

Career Bands

The jobs were then grouped by relative impact to the organization to create career bands, each with a maximum and minimum pay range. This reduced the number of titles while still maintaining logical career paths for employees. That would mean that future promotions would have more of a real impact in terms of title, responsibilities and salary. This strategy also created a new emphasis on external competitiveness. Since the internal job titles were now comparable to outside jobs, it was easier to see whether an internal job candidate was a good fit for a new position or an outside candidate should be considered instead.

Another goal of simplifying the career bands-and the entire compensation process-was to create a consistent and repeatable methodology, according to Seaward. "Is anyone really doing banding anymore?" he asked. "Less than 10% of organizations use a banding environment. So it is less common than before. So why at JC Penney? It made sense for them."

Market pricing had a side benefit of making it easier for managers to understand the value of work. "It answered a critical question of line management-what is a job worth?" said Craig Rowley, VP and national retail practice leader at the Hay Group. "When you pair job evaluations and market data, you get better results. It drives the company culture to know 'what is the right price for this job?'"

Communication Was Critical

Communication was also critical. The organization "educated and partnered with department leadership," according to Graebner. HR met with executive committees to get management buy-in for the new program and distributed a newsletter to management a month before it went into effect. HR also created a script for managers to ensure consistency in how they presented the changes to their staff, as well as videotapes for employees to watch and Q&A sheets. The video included messages from the top executives explaining the changes-why they were being made and what market pricing is-and emphasizing being the "best." Plus, HR posted project updates on the HR Web-site home page.

HR also contacted each employee individually. "We had prepared a personalized letter for every associate that told them what band they were in and what market data their job would relate to," said Graebner.

The communication blitz was so effective that one manager told them, "By the time we rolled this out we knew so much about it that it was second nature and a 'no brainer.' We were all wondering why we hadn't done this before."

So far, JC Penney has had no major issues develop as a result of the changes, although Graebner says that ongoing communication is required.

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